

12 November 2020

HKN Energy, Ltd.

HKN Energy, Ltd. (“HKN”) presents an operating and financial update for the nine months ended 30 September 2020. HKN holds a 62% PSC interest in the Sarsang Block in northern Kurdistan.

Highlights

- Revenue during the first nine months of 2020 decreased 38% from the comparable period in 2019, primarily due to a 41% reduction in realized oil price as compared to prior year.
 - Revenue for Q3 2020 increased 76% over Q2 2020 driven by a 62% increase in realized oil price and a 7% increase in production.
 - HKN received cash proceeds from oil sales of \$85.2 million during the first nine months of 2020 with an additional \$9.5 million in cash received since September.
 - We have not made progress on settling the arrears from the KRG for oil sales during November and December 2019 and January and February 2020 (\$68.6 million net to HKN). We continue to stress the importance of a concrete plan for recovery of these arrears with the KRG. The outstanding arrears impact our measure of free cash flow as well as our cash and net debt balances.
- Production during the first nine months of 2020 increased by 6% from the comparable period in 2019.
 - We achieved record quarterly gross production of 24.2k bopd from our core Swara Tika field during Q3.
 - We restarted production from the East Swara Tika facility in October 2020 and have reached daily gross production of over 5k bopd from this facility.
 - Sarsang cumulative production reached 28.7 million barrels as of September 30.
- HKN’s ability to generate solid cash flow in a low oil price environment is a direct result of our low breakeven price per barrel. For the first nine months of 2020, HKN’s breakeven oil price before interest and hedging costs dropped 15% from prior year to under \$25/bbl.
- Cash balance at 31 October 2020 of \$87.7 million, including restricted cash of \$6.8 million.

Summary of Results ⁽¹⁾

		Q3 2019 YTD (unaudited)	Q3 2020 YTD (unaudited)
Production (gross)	Bopd	22,108	23,302
Production (net) ⁽²⁾	Bopd	13,707	14,448
Revenue	USDm	\$ 135,788	\$ 84,350
EBITDA ⁽³⁾	USDm	\$ 85,162	\$ 41,472
Capex ⁽⁴⁾	USDm	\$ (90,205)	\$ (59,182)
Free cash flow ⁽⁵⁾	USDm	\$ 750	\$ (20,569)
Cash at 30 September	USDm	\$ 126,288	\$ 80,611
Restricted Cash at 30 September	USDm	\$ -	\$ 6,789
Debt at 30 September ⁽⁶⁾	USDm	\$ 100,000	\$ 137,500

Notes:

- (1) HKN has opted to delay adoption of IFRS; 2020 financial reporting continues under US GAAP.
- (2) Net based on 62% PSC interest.
- (3) EBITDA is Net income/(loss) adjusted to add back interest, depletion, depreciation and amortization expenses and loss on derivatives.
- (4) Capex is shown on a cash basis.
- (5) Free Cash Flow is net cash generated from operating activities less cash outflow due to purchase of property, plant & equipment. Free Cash Flow is before debt costs and dividends.
- (6) Face value of debt.

Outlook

- We expect first oil from the new 25k bopd facility on Swara Tika in Q2 2022.
 - Any delays in the supply chain due to continued COVID 19 impacts will extend the first oil date and could increase costs.
 - HKN is tentatively planning a restart of the drilling program required to fill the facility in Q1 2021.
 - Tie in to the KRG export pipeline is currently expected to align with completion of the 25k bopd facility in Q2 2022.
- Our Capex guidance for 2021 is \$75-\$100 million (net to HKN).
 - We are currently reviewing a potential project in 2021 to acquire additional 3D seismic on Swara Tika and East Swara Tika. If we proceed with the seismic acquisition program, Capex (net to HKN) may be higher than the guidance stated above.
 - As in the past, 2021 Capex spending is predicated on oil price and ongoing payments from the KRG.
- HKN expects 2021 production (gross) in the range of 27k-30k bopd.
- We expect final drawdown of \$11.5 million from the DFC loan in Q1 2021.

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Disclaimer

This announcement contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil & gas exploration and production business. As the expectations reflected herein are believed to be reasonable in light of the information available to Company at this time, the actual outcome may be materially different due to factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy. For these reasons, no reliance may be placed on the figures contained in such forward looking statements.

EBITDA is a supplemental non-GAAP financial measure. We believe EBITDA and similar measures are useful to investors because they are frequently used by analysts and investors to evaluate companies in the oil and gas sector. Because these measures exclude some, but not all, items that affect net income, these measures as presented by us may not be comparable to similarly titled measures of other companies.